

Review of Compliance with Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits, Report No. 06-05, April 12, 2006

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of compliance with provisions of the Railroad Retirement Act (RRA) governing the initial award of benefits.

Background

The Railroad Retirement Board (RRB) administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment or sickness. During fiscal year (FY) 2005, the RRB paid approximately \$9.2 billion in RRA benefit payments to 634,000 retirement and survivor beneficiaries.

The RRA provides for the payment of monthly annuities to retired railroad workers, their spouses and survivors on the basis of the employee's years of service in the industry, age at retirement or, in certain cases, disability. A railroad retirement annuity may have multiple components:

- tier I, computed using Social Security Act formulas applied to both railroad and non-railroad earnings;
- tier II, computed using a formula established under the RRA, applied to railroad earnings only;
- a vested dual benefit, available only to certain individuals who were vested under both the RRA and the Social Security Acts before 1975; and
- a supplemental annuity, available to retired workers who meet certain additional age and service criteria.

Spouse and survivor annuities are computed based on the railroad employee's earnings record. Vested dual benefits and supplemental annuities are available only to employee annuitants.

The Office of Programs is responsible for the adjudication of benefits including decisions on entitlement and computation of payment amounts. Benefit payment operations are supported by both mainframe and local area network based computer operations from the time of application through payment including the maintenance of comprehensive historical records.

The Office of Programs distinguishes initial awards from other types of claims activity. Initial awards are decisions to pay benefits for the first time to an applicant for a specific type of annuity: employee, spouse or survivor.

This review was undertaken to support the OIG's annual audit of the RRB's financial statements, which is required by the Accountability of Tax Dollars Act of 2002. In compliance with the Office of Management and Budget's Bulletin 01-02, Audit Requirements for Federal Financial Statements, the OIG assesses compliance with selected provisions of the RRA as part of its annual audit of the RRB's financial statements.

Objective, Scope, and Methodology

The objective of this audit was to determine whether the RRB had a reasonable basis for the award of benefits under the RRA during the first quarter of FY 2005. To accomplish our objective, we:

- interviewed responsible staff and management;
- identified compliance controls and assessed their effectiveness;
- identified and summarized the benefit payment provisions of the RRA; and
- evaluated initial award decisions on a sample basis.

We considered the results of the control assessments and transaction tests in forming our overall assessment concerning compliance.

Our case review methodology linked RRA provisions governing the award of benefits to the specific information, documentation and determinations required to support the award of benefits. For each case in the sample we:

- identified key personal information gathered by the agency to support the award process,
- determined whether the agency had obtained necessary evidence;
- assessed whether benefits were awarded consistent with the evidence; and
- confirmed notice of award and appeal rights.

The details of our sampling and review methodologies are presented in appendices I and II to this report. The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government, (GAO/AIMD-00-21.3.1, November 1999) and, Internal Control Management and Evaluation Tool, (GAO-01-1008G, August 2001) were the source of criteria for our assessment of compliance controls and other internal control findings.

Our work was performed in accordance with generally accepted government auditing standards as applicable to the objective. We performed audit fieldwork at RRB headquarters in Chicago, Illinois from December 2004 through July 2005 and November 2005 through January 2006.

RESULTS OF REVIEW

Our tests of controls and transactions determined that the RRB had a reasonable basis for the award of initial retirement, spouse and survivor benefits and has established effective compliance controls. Our tests disclosed no evidence of material non-compliance with the benefit payment provisions of the RRA.

Our tests of documentation, controls and transactions identified some weaknesses in supporting documentation and one payment error not previously identified for correction by agency control processes. We also present for management's review an example of a control that may permit payment errors that exceed acceptable thresholds.

Missing Documentation

The agency needs to strengthen documentation of initial award processing.

Transactions and other significant events should be clearly documented, and the documentation should be readily available for examination. Documentation of transactions and other significant events should be complete, accurate and, whether in paper or electronic form, be useful to managers in controlling their operations and to any others involved in evaluating or analyzing operations.^{1, 2}

In some cases, documentation supporting initial awards is passed directly to the imaging system by another automated system; however, some paper documentation must still be scanned manually into the imaging system.

Our review of the supporting documentation for 45 initial awards identified two cases in which documentation supporting the initial award of benefits was incomplete, thus exceeding the sample acceptance threshold for this test methodology as described in Appendix I. In both cases, printed award forms documenting the details of the benefit calculation had not been scanned into the agency's system of imaged records. Both cases had been processed through the RASI system which does not automatically pass the results of processing to the imaging system.³

¹GAO, Standards for Internal Control In the Federal Government, (GAO/AIMD-00-21.3.1, November 1999), page 15.

²GAO, Internal Control Management and Evaluation Tool, (GAO-01-1008G, August 2001), page 43.

³ The Retirement Adjudication System Initial, or RASI, computes benefits based on information entered by agency personnel and documents the results of processing on a hard copy paper form.

The examples of missing documentation identified during the audit are generally attributable to human error in processing paper documents into agency systems. The missing documentation makes it more difficult to determine the accuracy of the adjudicative actions, increases the risk of adjudicative errors, and undermines the credibility of agency decisions.

The Office of Programs plans to eliminate the use of the RASI system by using an existing agency system that automatically passes the results of processing to the imaging system. The target date for this conversion is under review.

Recommendation

We recommend that the Office of Programs develop a control to better ensure the completeness of manually imaged records or eliminate manual intervention in the process. (Recommendation #1)

Management's Response

Management agrees that improvements to controls are warranted. They have recently implemented a procedure to batch and log referrals requiring manual handling.

The full text of management's response is included as Appendix III to this report.

Inconsistent Service and Compensation Data

The audit trail for initial awards is not consistent and reliable with respect to military service used in the computation of benefits.

In five of the 45 cases (11%) reviewed during the audit, the earnings record used to compute the benefit amount was either inconsistent with the proof of military service retained by the agency, inconsistent with the automated historical record maintained, or both. The number of exceptions identified exceeded the sample acceptance threshold for this test methodology as described in Appendix I.

All transactions should be supported by documentation that is complete and accurate and facilitates tracing the transaction and related information from initiation through completion.^{4,5} The RRB does not presently have a control in place to identify and correct inconsistencies of the kind identified by the audit. Inconsistencies in supporting documentation undermine the credibility of agency decisions.

⁴GAO, Standards for Internal Control In the Federal Government, (GAO/AIMD-00-21.3.1, November 1999), page 15.

⁵GAO, Internal Control Management and Evaluation Tool, (GAO-01-1008G, August 2001), page 43.

Recommendation

We recommend that the Office of Programs review the exceptions cited by the audit and develop a control to improve the accuracy of documentation supporting military service. (Recommendation #2)

Management's Response

Management agrees and reports undertaking a series of initiatives designed to improve record keeping for military service data. They plan to examine the specifics of the audit exceptions to determine if the problems identified by the audit would be identified, resolved, or prevented and consider whether changes to this project are warranted to address the problems auditors found.

The full text of management's response is included as Appendix III to this report.

Incorrect Annuity Beginning Date

One of the factors used to determine the annuity beginning date is the application filing date. Generally, the application filing date is the date the application is received by the agency or postmarked, if mailed.⁶ The agency has promulgated regulations that allow for an earlier "protected" filing date if certain conditions are met.⁷ The conditions include a written or oral intent to file followed by the timely filing of the formal application.

Our sample of 45 initial awards included a case that had an annuity beginning date three months earlier than what is allowed by law and regulations due to the incorrect use of a protected filing date. Based on the agency's written procedures, this case did not qualify for the protected filing date. In this case, agency personnel erred in protecting the filing date because the application was not received within the required time period. The use of an incorrect filing date caused a one time overpayment of approximately \$2,100.

Appendix I describes the test methodology used in this evaluation including the impact of this exception on our overall assessment of compliance.

Recommendation

We recommend that the Office of Programs:

- take action to recover the overpayment identified by the audit (Recommendation #3); and

⁶ 20 CFR 217-16

⁷ 20 CFR 217-20

- issue a memorandum reminding field and headquarters personnel of the proper use of protected filing dates. (Recommendation #4)

Management's Response

Management has reviewed the details of the case with the field office involved and determined that the case had been mishandled. The Office of Programs has decided to consider the annuitant “deterred from filing” and not overpaid.⁸

The Office of Programs believes that the mishandling of this case was an isolated mistake and disagrees with the recommendation for a memorandum reminding field and headquarters personnel of the proper use of protected filing dates. They have discussed the case with the staff in the field office involved and plan no further action.

The full text of management's response is included as Appendix III to this report.

OIG's Comments on Management's Response

We leave it to management to determine the audience that may benefit from a reminder concerning the use of protected filing dates; however, we believe the limited action taken by the Office of Programs may represent a missed opportunity.

Uncorrected Discrepancies May Exceed Acceptable Thresholds

Existing controls may not meet management's expectation with respect to minimizing uncorrected payment errors.

Our sample included a case in which a widow's annuity was underpaid approximately \$11 per month because it had not been properly computed based on the employee's tier II amount. In this case, the widow annuity was based on two fewer months of service than had been used to pay the deceased employee annuitant.

The RRA provides that the tier II portion of the widow annuity be paid based on the employee's tier II amount at the time of death.⁹ To be accurate, the widow's benefits must be computed with the same earnings record used to compute the employee's benefit; however, agency processing systems only identify discrepancies of three or more service months for further review and possible correction.

⁸ An annuitant who has been deterred from filing may be entitled to an earlier filing date than that on the application.

⁹ 45 USC 231c(g)(1)(i)

Discrepancies between the earnings records used to pay the employee and widow will always result in a payment error. The existing control structure assumes that errors of one to two months will have an acceptably low impact on the results of the benefit computation. However, the impact of even small discrepancies increases over time due to the application of cost-of-living increases to the employee annuity during his/her lifetime that may exceed acceptable thresholds.

Recommendation

We recommend that the Office of Programs review its decision to exclude discrepancies of less than three months from the internal control process that identifies discrepancies between the earnings record used to compute a widow's annuity and that used to pay the deceased railroad employee. (Recommendation #5)

Management's Response

Management believes that the case identified by the audit was an extremely unusual data entry mistake which resulted in a temporary inconsistency. While they believe that their policy not to review service discrepancies of less than three months is sound, they have agreed to review that policy in light of this case.

The full text of management's response is included as Appendix III to this report.

SAMPLING METHODOLOGY AND RESULTS

We used statistical sampling to assess the effectiveness of controls over compliance with the benefit payment provisions of the RRA.

Objective and Scope

The sampling objective was to determine whether the RRB had a reasonable basis for the award of initial benefits under the RRA during the first quarter of FY 2005.

Case Review Methodology

Our case review methodology linked RRA provisions governing the award of benefits to the specific information, determinations and documentation required to support the award of benefits. For each case in the sample, we:

- identified key personal information gathered by the agency to support the award process (28 items);
- determined whether the agency had obtained necessary evidence (9 items);
- assessed whether benefits were awarded consistent with the evidence (7 items); and
- confirmed notice of award and appeal rights (1 item).

The details of the case review methodology are described in Appendix II.

Sampling Methodology

We used statistical acceptance sampling using a 90% confidence level and 5% tolerable error which directed a 45 case sample. We selected the sample at random from the universe of 7,730 initial decisions to award recurring benefits during the first quarter of FY 2005.

The threshold for sample acceptance was zero errors. Zero errors would permit the auditors to infer with 90% confidence that the RRB had a reasonable basis for its decision in at least 95% of the universe of all award decisions. We applied the criteria for sample acceptance separately to each of the seven key elements of the award decision and the notice of award/appeal rights. We applied the same sample acceptance threshold in our evaluation of control effectiveness.

Results of Sample Review

Our direct assessment of the basis of adjudication identified no errors in excess of the sample acceptance threshold in six of the seven areas for which we evaluated the basis of the RRB's award decision. Each of the 45 randomly selected sample cases was evaluated in each of the seven areas with the following result.

SAMPLING METHODOLOGY AND RESULTS

	CORRECT CASES
The award of benefits was supported by an official wage record.	45
The award of benefits was supported by proofs of birth, death, marriage and military service as applicable.	45
The annuitant was entitled to the award of benefits under the RRA based on the evidence of record.	45
Benefits were awarded from the correct annuity beginning date.	44 (see below)
The annuitant was awarded annuity components to which he/she was entitled; no components were omitted.	45
All benefit reductions on the award were appropriate; no reductions were omitted.	45
All benefit increases on the award were appropriate and none were omitted.	45

Our review of 45 cases included one initial award decision with a previously undetected error. The error was due to the use of an incorrect application filing date in determining the annuity beginning date.

Our review of notices of award decisions and appeal rights disclosed no exceptions or errors.

During our review, we also noted some omissions and inconsistencies in the agency's records that did not result in payment errors and did not prevent us from concluding that the agency had a reasonable basis for the decision to award benefits. These weaknesses are described below.

Weaknesses in the Adjudicative Record

Our sample of 45 initial awards included seven instances (16%) of an incomplete adjudicative record or an adjudicative record that was inconsistent with other agency historical records.

Form Documenting Decision to Award Benefits Not Retained 2

Historical Record of Military Service Inconsistent with Wage Record 5

The number of exceptions associated with both weaknesses exceeded the sample acceptance threshold of zero errors.

These are control weaknesses that did not adversely impact our conclusion concerning the basis for the agency's decision to award benefits because we were able to assess the basis for that decision from other sources.

The individual weaknesses in the adjudicative record did not adversely impact our overall assessment of compliance controls because their effect was limited. The

SAMPLING METHODOLOGY AND RESULTS

missing award forms impacted only eight of the 28 items of key information for which we traced. The missing items would not prevent a reviewer from identifying the data used in the award determination because the same information had been recorded in other agency systems. The discrepant military service records impacted only three of the 28 items of key information for which we traced and prevented us from concluding positively in only one of the nine areas in which we assessed the quality of agency performance in obtaining necessary evidence.

Other Exceptions

One sample case had been paid incorrectly due to the omission of military service months from the wage record used to award the benefit. The case had been identified for review and correction by agency control systems. Since agency systems were operating to ensure a reasonable basis for payment, we did not cite this case as a payment error for purposes of sample evaluation.

One sample case was paid incorrectly due to omitted service months from the wage record used to award benefits to a widow. This case was not cited as a payment error for purposes of sample evaluation because it fell below the agency's error tolerance threshold. Agency processing systems only identify discrepancies of three or more service months for further review and possible correction. In this case, although the two-month discrepancy is below the established correction threshold, the dollar amount (\$11 per month) associated with the error may indicate that such errors exceed levels anticipated by management when the threshold was established.

Audit Conclusion

Accordingly, we conclude that RRB develops a reasonable basis for the award of initial benefits under the RRA and maintains adequate supporting documentation for such decisions.

CASE REVIEW METHODOLOGY

Our case review methodology linked RRA provisions governing the award of benefits to the specific information, determinations and documentation required to support the award of benefits. For each case in the sample, we:

- identified key personal information gathered by the agency to support the award process (28 items);
- determined whether the agency had obtained necessary evidence (9 items); and
- assessed whether benefits were awarded consistent with the evidence (7 items); and
- confirmed notice of award and appeal rights (1 item).

Identification of Key Information

For each beneficiary in the sample, we identified key personal information gathered by the agency to support the award process.

1. Date of birth
2. Date of employee's death (survivor cases only)
3. Date of marriage (Spouse or widow cases only)
4. Date of divorce, as applicable
5. Beginning and ending dates of military service
6. Current connection determination on wage record
7. Application filing date
8. Type of spouse annuity (regular or divorced)
9. Remarriage for divorced spouse
10. Date employee relinquished rights
11. Date employee last worked
12. Request for annuity beginning date to begin (earliest date or specific date or age)
13. Military service indicated on application
14. Incarceration indicated on application
15. Report of excess earnings on application
16. Total service months from wage record
17. Lag service on wage record
18. Total service months in employee data maintenance system
19. Military service on the wage record

CASE REVIEW METHODOLOGY

20. Employee's annuity beginning date
21. Type of annuity award (initial, recertification, partial, etc.)
22. Voucher date
23. Annuitant's annuity beginning date
24. Type of annuity (full age 60, reduced age 62, full age, etc.)
25. Benefit components awarded: tier I, tier II, supplemental annuity, vested dual benefit
26. Benefit reductions¹⁰
27. Benefit increases
28. Annuitant's gender

Necessary Evidence

Based on the foregoing information from the agency's records, we assessed whether:

1. the annuitant's proof of age was obtained;
2. proof of military service was obtained when required;
3. proof of marriage was obtained (for spouse and widow cases);
4. proof of divorce was obtained (for divorced spouses and widows);
5. the spouse/widower received 50% of their support from the employee (if the employee was a female);
6. the spouse or widow (regular or divorced) met the length of marriage requirement by calculating the number of years of marriage;
7. the divorced spouse remarried, and if so, entitlement does not exist;
8. the employee had a current connection based on date last worked and any non-railroad employment prior to the receipt of an annuity (for supplemental benefit entitlement determinations and survivor cases); and
9. the employment record on which benefits were awarded was consistent with historical record maintained by the agency.

¹⁰ Under the RRA, the amount of benefits awarded may be increased or decreased in certain circumstances. For example, concurrent entitlement to other retirement benefits such as Social Security or early retirement.

CASE REVIEW METHODOLOGY

Consistency of Award Determination with the Evidence

Based on our review of supporting documentation and agency consideration of the evidence, we assessed whether the agency's decision to award benefits was consistent with the evidence. Specifically, we determined whether:

1. the award of benefits was supported by an official wage record;
2. the award of benefits was supported by proofs of birth, death, marriage and military service as applicable;
3. the annuitant was entitled to the award of benefits under the RRA based on the evidence of record;
4. benefits were awarded from the correct annuity beginning date;
5. the annuitant was awarded all annuity components to which he/she was entitled: tier I, tier II, supplemental annuity, vested dual benefit;
6. required benefit reductions had been applied (e.g. concurrent social security entitlement); and
7. required benefit increases had been included (e.g. widow minimum guarantee).

Notice of Appeal Rights

Our detailed testing included review of each case to determine whether the beneficiaries had been notified of the agency's decision, and advised of their right to appeal including applicable time limits and filing methods.



UNITED STATES GOVERNMENT
MEMORANDUM

FORM G-115 (1-92)
 RAILROAD RETIREMENT BOARD

MAR 28 2006

TO: Henrietta Shaw
 Assistant Inspector General, Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
 Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
 Director of Programs

SUBJECT: **Draft Report – Review of Compliance with Provisions of the Railroad Retirement Act Governing the Initial Award Of Benefits**

Recommendation
 1 We recommend that the Office of Programs develop a control to better ensure the completeness of manually imaged records or eliminate manual intervention in the process.

OP Response We agree that improvements to our controls in this area are warranted. We implemented a procedure to batch and log those referrals requiring manual handling on March 9, 2006. We will notify the OIG when we have sufficient evidence that the new control is operating effectively. We expect to provide this by June 30, 2006.

Recommendation
 2 We recommend that the Office of Programs review the exceptions cited by the audit and develop a control to improve the accuracy of supporting documentation for military service.

OP Response We agree. We have undertaken a series of initiatives designed to improve our record keeping of military service data. These improvements are due to be completed by September 2006. We will examine the specifics in the cases cited to determine if the problems the OIG identified would be identified, resolved, or prevented when the new software is in place. We will also consider whether changes to this project are warranted in order to address the problems the auditors found.

Recommendation 3 We recommend that the Office of Programs take action to recover the overpayment identified by the audit.

OP Response Upon further development of the details of this case with the specific field office, we determined that this case was mishandled under the rules for protected filing date and decided to consider the widow deterred from filing. As such, the widow is not overpaid.

We have provided your auditors a copy of this decision under separate cover on March 22, 2006.

We consider this recommendation closed.

Recommendation 4 We recommend that the Office of Programs issue a memorandum reminding field and headquarters personnel of the proper use of protected filing dates.

OP Response We disagree. We determined that this situation is not widespread. The mishandling of this case was an isolated mistake.

We discussed the case situation found by the auditors with the staff in the specific field office involved with the case.

We consider this recommendation closed.

Recommendation 5 We recommend that the Office of Programs review its decision to exclude discrepancies of less than three months from the internal control process that identifies discrepancies between the earnings record used to compute a widow's annuity and that used to pay the deceased railroad employee.

OP Response The case identified in this audit involved an extremely unusual data entry mistake which resulted in temporary inconsistency with the wage record used for the employee annuitant and wage record used for the widow.

While we believe that our policy not to review service discrepancy less than 3 months is sound, we will review this policy in light of this case. We will complete this review and document our decision by September 2006.

Attachment

cc: Director of Operations
Director of Retirement Benefits/ Acting Director of Survivor Benefits
Director of Policy and Systems
Director of Field Service
Chief of Program Evaluation (Ret/Surv/Medicare/Tax)